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Original Research Article

Internal Control and Firms' Financial Performance in Nigeria: A Study of Selected Manufacturing Firms

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Abstract

This study was carried out for the purpose of understanding the impact of internal control on firm performance. This research wanted to prove that internal control played an important role on the performance of ten selected manufacturing firm in Nigeria. Internal control factors like board size, audit committee size, and board independence were investigated to see how they impact performance. Secondary data gotten from the ten manufacturing firms' financial statement were analyzed using the panel data regression analysis. Although the fixed effect and the random effect regression were carried out, the Hausman test pointed to the fixed effect regression as significant, hence it was focused on. Findings from the fixed effect revealed that board size, audit committee size, and board independence were all significant in impacting firm performance measured by equity returns. The study therefore recommended among others that the Board of directors should be more diverse in the composition of board members as this would boost their independence.

Keywords: Bank Performance, Board Size, Internal Control, Return on Equity, Panel Data Regression, Fixed Effect, Hausman Test

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1.1 INTRODUCTION

Internal control is one of the most vital elements in the running of any organization. It is a mechanism or system that involves the coordination and control of a firm or institution via a set of rules practices and processes (Okoye, Olokoyo, Okoh, Ezeji, & Uzohue, 2020). The responsibility of ensuring the stability of and adherence to this system falls mainly on the Board of Directors as they ensure that the organization, in which they have been appointed to manage, follows certain laws and policies that will guide it to success in the long run.

Internal control has different objectives, however, its main objective is to improve and maximize shareholders wealth while also looking out for the best possible interest of other stake holders of the business or organization (Mire, 2016). Therefore, internal control is the sum of all activities carried out by the top management of any organization, for the purpose of ensuring that everything is in proper order and all strategies and activities conform to the laid down organizational objectives (Eniola & Akinselure, 2016).

According to Kisanyanya (2018), internal control is a comprehensive term that lays out the techniques, procedures, structures and the processes of an organization through which the business affairs of the company are managed. It also enhances firm's performance, and boosts shareholders' value in the long run by the process of answerability and responsibility of managers and board members.

Internal control is seen as an effort to improve business quality through enhancing straightforwardness, ensuring compliance, reinforcing work relationships, creating social investments and managing resources to build society (Anand, 2017).

Gradually, internal control has evolved from being mere legal and political frameworks or company legislations that guides certain institutions to being a recognized statute that is adopted in organizations all over the world. Internal control has always existed as long as there was a need to form an organization or business of some sort. Its evolution in Nigeria can be retracted to the internal control code that was issued in August 2003, by the bankers committee to banks and other financial institutions in Nigeria (Nigerian Code of

Corporate Governance, 2018). That then became a starting point for a system of organized corporate control in Nigeria.

Business ethics is the process of applying the general principles of ethics to business issues. It covers a wider range of issues and concerns than what the law covers, due to the fact that not everything that is legal is equally ethical. Ethics has to do with understanding the right and the wrong, and then choosing the right -- but "what is right" is not as straightforward as it sounds (Mack, 2018). Ethical behavior is simply acting in a way that is morally acceptable and characterized by integrity, honesty and fairness, which is needed in the work environment.

Internal control facilitates ethical behavior among company staff in the sense that; without a system of control, there will be no order, no responsibility, and no need for accountability of any sort. It is then safe to say that in order to achieve ethical behavior; a system of internal control is needed. Internal control and ethics go hand in hand in the corporate world, but there is a need to examine how much internal control really influences the ethical behavior of company workers in Nigeria, so as to establish proper insight of the subject matter.

1.2 Statement of Research Problem

Internal control is a system that has existed over the years in order to encourage the effective management of an organization, and by so doing secure the long term success of the organization. For the past years it has focused on maximizing the wealth of the shareholders alongside the interest of all stakeholders and improving corporate performance and accountability. It has adopted the principles of fairness, transparency, leadership and accountability in different organizations (Amissah, 2017). However, the unethical behavior of some company workers has made most of these efforts futile as the incompetence and dishonesty among the workers has contributed in diminishing shareholders wealth, and stood against the interest of the bank's stakeholders. One of the issues with weak enforcement of internal control by companies is that there is little compliance to rules. If the workers are not closely monitored there is a tendency to fall out, and if the board is not vigilant in the execution of its duties, that tendency increases.

Another issue is the numerous financial scandals in global firms around the world, plus the recent collapse of major corporate institutions in the USA and Europe such as Lehman Brothers, Merrill Lynch, and American International Group (AIG), have brought to the fore again, the need to examine internal control and how it can help boost organizational performances.

This paper is divided into five sections with the introductory section as the first section. The second section is the review of literature. Section three revealed the methodology used, and section four showed the analysis of data sourced, while the paper concluded in section five.

1.3 Research Hypotheses

H_0: Board independence does not have a significant effect on firm performance in Nigeria.
H_0: Audit committee size does not significantly have an impact on firm performance in Nigeria.
H_0: There is no significant effect between board size and bank performance in Nigeria.

II. LITERATURE REVIEW

2.1 Conceptual Framework

2.1.1. Definition of Internal Control

Internal control is the system of control and regulation of administration in the best interests of the company. This includes being accountable to shareholders who appoint members of the board and the auditors. How a company is governed affects rights, privileges and relations among organizational stakeholders, it affects how an organization is run, and has an influence on its success or failure. According to Ighodalo, Omankhanlen, Omodero, & Isibor (2021), organizations do not flop, boards do. Internal control structure is the amalgamation of mechanisms to guarantee that the board of directors (agents) runs the organization for the advantage of the stakeholders (principals) (Ighodalo, Omankhanlen, Omodero, & Isibor, 2021). The stakeholders include but are not limited to; creditors, suppliers, shareholders, employees, clients, and any other party that is directly or indirectly with the firm.

Internal control is the sum of all procedures followed by the board of directors, and its associated groups, in representation, and for the advantage of the stockholders, to deliver bearing, authority, and oversights to management (Hunziker, 2016).

In comprehensive terms, internal control is referred to as the manner in which establishments are managed, directed, and organized. Internal control is also concerned with the dealings between the numerous external and internal stakeholders involved as well as the control procedures aimed at assisting in the achievement of an organization's goals. Those mechanisms and controls are of prime importance. They are designed to diminish or eradicate the issues of the principal-agent concept (Uwuigbe, Eluyela, Uwuigbe, Teddy, & Irene, 2018). Internal control is the relations between internal stakeholders, external stakeholders and the board of directors in guiding an organization for the creation of value.

In all these definitions, one can see that internal control is considered an effective instrument for the management of organizations, and it is mostly aimed at organizational efficiency and stakeholder satisfaction. It employs ethical standards and control in ensuring that resources are efficiently put to use, and that there is

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accountability for every activity. Without this framework, organizations and businesses would lose value.

2.1.2 Historical Development of Internal Control in Nigeria

Internal control in general cannot be separated entirely from corporate regulation. Internal control practices, like Nigeria's legal system, mirrored the UK pattern. The growth of the fundamental principle of internal control in Nigeria concerns issues which are related to the regulating and controlling of corporate institutions, and can primarily be traced to the Companies and Allied Matters Act (CAMA) 1990, which replaced the 1968 Companies Act.

In 1990, when CAMA evolved, internal control had not yet been recognized as an individual concept, instead, CAMA took into consideration certain principles which can today be linked with internal control practice. A formal internal control code was issued in Nigeria by the Bankers ' Committee in August 2003, the code that was issued is the Internal control Code for Banks and Other Financial Institutions in Nigeria (Nigerian Code of Corporate Governance, 2018).

This introduction of internal control into the banking sector in Nigeria was a response to Nigeria's pre-2000 financial situation. Between 1994 and 1995, five banks crashed and their patents were therefore terminated. Thirty more banks suffered the same ill fortune between 1994 and 1995. The capital base for Nigerian banks rose from ₦2 billion to ₦25 billion by February 2006 due to the gradual growth and development of financial processes (Omankhanlen, Ilori, & Isibor, 2021). This was followed by a major drop of the total number of banks in Nigeria as only 4 banks were left standing out of 89. On August 26, 2003, banks and other financial institutions were approved an internal control code to manage the structure for more skill. The Securities and Exchange Commission (SEC) published an internal control code of best practices companies that were publicly quoted later in 2003, and the Central Bank of Nigeria equally issued a code in 2006, and all relevant banks were expected to comply accordingly. This code was issued in March 1, 2006 but came fully into effect on April 3, 2006 (Nigerian Code of Corporate Governance, 2018).

2.1.3 Objectives of Internal Control

Internal control is purposed mainly for the legal and ethical accumulation of wealth. This means ensuring a high degree of contentment among: employees, investors, suppliers, customers, and at large, the society (Ahmed & Manab, 2016). The purpose of each corporate body's existence is to ensure annual revenue predictability, conservation, and profitability. Stated below are some standards that internal control seeks to achieve in an organization.

1. The most important objective that internal control seeks to achieve is the maximization of the wealth and interest of its shareholders.
2. To create a working environment that is transparent and therefore free of ethical flaws.
3. To make room for the existence of a socially responsible organization, that is an organization that takes responsibility for the welfare of its immediate environment and the society at large.
4. To ensure that the management is responsible and accountable for the decisions made in the process of planning, control and supervision of the organization.
5. To ensure that all the social and economic goals set by the organization are being achieved.
6. To foster cooperation, team work and harmony within an organization so as to form a strong strategic stand point.
7. To ensure that the waste of resources is avoided, corruption is checked and bureaucracy is circumvented.

2.1.4 Parties to Internal Control

The different parties involved in the dispensation and promotion of good internal control in an organization are:

- **The Shareholders:**

The shareholders have the right to choose the directors or managers, and in so doing, they give the managers the right to act as agents in favor of them and for their benefits as principals. However, this system allows for the separation of ownership from control.

- **The Board of Directors:**

This party plays are very important because it plays probably the most important role in the enforcement of internal control. It is the Board's duty to develop policies and strategies for the organization, appoint, monitor and delegate duties to employees and the management. The Board also ensures that the organization is accountable to its shareholders and other regulatory authorities.

- **Stakeholders:**

These are parties who are wholly or partially influenced by the activities of the business organization or the decisions of the board. Some of these parties include: suppliers, employees, creditors, surrounding communities, customers, to mention but a few.

All the parties to internal control have a direct or indirect interest whether it is salary, capital returns, goods and services, compensation or community betterment. They all come together in an organization to contribute value and different forms of capital which all held together by a mechanism called internal control which ensure orderliness and guaranteed returns.

2.2 Theoretical Framework

2.2.1 Agency Theory

This entails that the directors and management of an organization are agents, serving the best interest of the principles of that organization, who happen to be the shareholders. The agent performs all their duties with the best interest of their principals in mind. The directors who are the shareholders ' agents are given the tasks of managing the business (Bett & Memba, 2017). In this case, managers will not have the same profit oriented objectives as sole proprietors or private business owners and as such will not use the resources of the firm to satisfy their own wants, but rather, would manage the resources of the business keeping in mind the aim of maximizing the shareholders wealth. Basically, the agents are expected to make decisions that would benefit the principal. This theory therefore leaves no room for opportunistic behavioral patterns, and the promotion self-interest among the agents. This theory also provides for the accountability of the employees in the sense that they are required to take responsibility for the tasks assigned to them.

2.2.2 Stewardship Theory

According to Anita Flynn in her article about the stewardship theory of internal control, "A steward is defined as someone who protects others ' needs and takes care of their interests. Under the stewardship theory, business executives protect the owners ' or shareholders ' interests, deliberate and come to conclusions on behalf of them. Their main aim is to establish and preserve a prosperous organization in order for shareholders to thrive. Companies that adopt stewardship place the responsibilities of CEO and Chairman under one executive, with most in - house members comprising the board. This enables intimate organizational operational knowledge and an unfathomable commitment to success (Umar & Dikko, 2018). In psychology and sociology, stewardship theory has its origins (Adetula, Balogun, Uwajeh, & Owolabi, 2016). In this viewpoint, stewards are directors and managers working for the shareholders to protect their interest and make profits that will benefit them. The stewardship perception implies that when organizational success is achieved, stewards are satisfied and motivated. Stewardship theorists presume that, faced with the choice between selfish actions and pro - organizational actions; a steward attaches greater importance to cooperation than to capitulation. Stewards are supposed to be socialistic, pro - institutional and reliable (Umar & Dikko, 2018). The stewardship theory also implies a single leader should exist to avoid confusion as to who the shareholders should hold accountable.

2.2.3 Stakeholder Theory

A set of people who are affected by the progress of an organization and without which the organization cannot succeed can define stakeholders (Okoye, Evbuomwan, Achugamonu, & Isibor, 2016). Stakeholder theory says a company will eventually break down if it treats its employees badly. If it pushes its community projects to have adverse effects, the same is likely to happen. A company cannot disregard its stakeholders and really succeed. There may be short - term earnings, but the company cannot survive as stakeholders become unhappy and feel let down. The theory of stakeholders implied that a business' purpose is to create as much economic and financial value for stakeholders as possible. To be successful and profitable over time, top managers must align and move in the same direction the interests of customers, suppliers, employees, communities and shareholders (Okoye, Evbuomwan, Achugamonu, & Isibor, 2016).

2.3 Empirical Framework

Okoye, Erin, Ahmed, & Isibor 2017) concluded that there were poor internal control mechanisms in some microfinance banks and this accounted for the major factor causing the present financial crisis in the country. This becomes very striking when one looks at some of the questionable behavior among top banking chiefs that gave out loans without the need for collateral security.

Dzingai & Fakoya (2017) revealed that review of the internal control legislation in the mining industry and the assessment of the internal control standard in South Africa clearly demonstrated a deviation between the internal control code and its compliance. Therefore, this deviation tends to raise several problems.

For internal control to have a positive major effect on organizational performance, honesty transparency and objectivity are highly required; due to the fact that the effectiveness and efficiency of the company in terms of generating increased profits, returns on capital employed, goodwill and shareholding anchor on the efficacy and efficiency of the establishment's internal control (Joshua, Osuma, Ikpefan, Agbeyangi, & Isibor, 2021).

Okere, Eluyela, Lawal, Oyebisi, Eseyin, Popoola, & Awe (2019) came to the conclusion that; proper internal control practice is now a necessity in corporate management due to its enormous benefits to corporations, its shareholders and stakeholders. The challenge therefore is to ensure that the system is constantly monitored, sufficiently tweaked and regularly updated to ensure that the internal control codes are contemporary, relevant and reliable.

Ighodalo, Omankhanlen, Omodero, & Isibor (2021) conducted a study of Nigerian banks ' insider perceptions of insider trading and internal control. The findings reveal that regulatory bodies need to reinforce efforts to increase the integrity of information and its course in the interests of thorough internal control in the banking sector in Nigeria. The study also highlighted the fact that internal control issues still exist in the Nigerian banking sector, namely: instability of board tenures, board disagreements, ownership upheavals, high rate of

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insider dealings. However, this study found that while there is now a resilient indication that the link between ethical governance and sound financial performance is known to bank employees.

III. METHODOLOGY

3.1 Research Technique

The study utilized the quantitative research design which necessitated the use of secondary data of 10 selected manufacturing companies considered in the study. The companies were selected using the simple random sampling technique and they included Guinness Nig, Plc, Dangote Cement Plc, Flour Mills Plc, Dangote Flour Plc, Lafarge Cement Plc, Nestle Plc, Cadbury Nigeria Plc, GlaxoSmithKline Plc, Nigerian Breweries Plc, and May and baker Plc. The secondary data gathered was first tested for stationarity using the panel unit root test and also analyzed using the panel data regression analysis with Eviews nine econometric software. The panel data regression was selected due to the panel nature of the data which contained cross-sectional and time-series attributes.

3.2. Model Specification

The adopted model utilized for this study assumed a linear relationship between the dependent variable performance (return on equity ROE) and some elements of internal control which included board independence (BIND), audit committee size (AUDC), and board size (BOSE) (independent variables). The model was adopted and modified from the study of Olokoyo, Isibor, Okoye, Evbuomwan, Adegboye, & Agbogun (2020) and was specified as:

$$ROE_t = \beta_0 + \beta_1 BIND_t + \beta_2 AUDC_t + \beta_3 BOSE_t + \varepsilon_t \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (1)$$

Where:

ROE_t = Return on equity at time period t

$BIND_t$ = Board Independence at time period t

$AUDC_t$ = Audit Committee Size at time period t

$BOSE_t$ = Board Size at time period t

β_0 = Constant

β_1- β_3 = Coefficients to estimate the independent variables

ε_t = Error term at time period t

Data on the selected variables over the period 2010-2019 for each of the 10 selected manufacturing companies.

3.3 A priori Expectation

All the parameter estimates (β_1, β_2 β_3) of the model are expected to be positive. The implication of this is that a direct relationship is expected among all the independent variables with the dependent variable.

3.4 Description of Variables

ROE:

This is the ratio of profit after tax to total number of shares in the company. It showed how efficient the banks' management was in using the banks' equity funds. The formula is:

$$ROE = \frac{Profit\ after\ Tax}{Total\ Equity\ Shares} * 100$$

BIND:

This showed the total number of independent (autonomous) members on the board. It deals with the independence of the board members with respect to the job function.

AUDC:

This deals with the independence of the audit committee especially as it relates to how they make decisions free from external forces.

BOSE: It revealed the total number of directors on the board.

4.1 Panel Unit Root Test

This test was utilized to examine the stationarity of the data. According to Levin, Lin & Chu (2002), the stationarity of the data means that the data has properties of mean, variance and autocorrelation structure that do not change over a period of time. Therefore, the ability to analyze such data due to its stationarity features. Also Levin, Lin & Chu (2002) explained that panel unit root test should be carried out on panel data which involves both time series and cross sectional data.

The null and alternate hypothesis for the panel unit root test is:

H_0: There is the presence of a unit root.

H_1: There is no unit root.

The probability values (p-values) of the Levin, Lin & Chu t-statistics and the Augmented Dickey-Fuller - Fisher Chi-square (ADF - Fisher Chi-square) were checked to know the stationarity at levels or first difference. If the probability values are less than 0.05 or significant at 5 per cent level of significance, then the null hypothesis would be accepted and it would be agreed that there is the presence of a unit root and the data is stationary. Yet, if the probability values are more than 0.05 or insignificant at 5 per cent level of significance, then the null hypothesis would be rejected and the alternate hypothesis accepted.

Examining the panel unit root result below in table 1, log of AUDC, log of BIND, log of BOSE and ROE were stationary at levels and therefore integrated to the order of 0 as the their probability values were stationary at 5 per cent level of significance.

Table 1: Panel Unit Root Test

Variable	Levin, Lin & Chu t* statistics	Levin, Lin & Chu t* statistics (probability value)	ADF - Fisher Chi-square	ADF - Fisher Chi-square (probability value)	Stationarity	Remark
LAUDC	-5.03090	0.0000	21.8349	0.0052	Stationary at levels	I(0)
LBIND	-6.85759	0.0000	42.2611	0.0026	Stationary at levels	I(0)
LBOSE	-3.98427	0.0000	34.1931	0.0248	Stationary at levels	I(0)
ROE	-4.66038	0.0000	32.4950	0.0383	Stationary at levels	I(0)

4.2 Fixed-Effect Regression Analysis of Data

This was used to investigate whether a significant effect existed between the dependent variable (return on equity) (ROE) and all the independent variables which were log of board independence (LBIND), log of audit committee size (LAUDC), and log of board size (LBOSE) based on the panel unit root result. The result is shown below in table 2 below:

Table 2: Fixed-Effect Regression (ROE as Dependent Variable)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	23.70298	41.53503	0.570675	0.5697
LAUDC	-11.91170	17.55862	-0.678396	0.0393
LBIND	-1.263062	6.491098	-0.194584	0.0162
LBOSE	9.965328	11.67415	0.853624	0.0437
R^2 = 0.56	Adjusted R^2 = 0.50	Durbin-Watson Test = 1.89		

From the presented result in table 2, there was found a positive relationship between bank performance (return on equity) and log of board size (LBOSE) while a negative relationship was found with log of audit committee size (LAUDC) and log of board independence (LBIND). The nature of the relationship was both positive and negative based on the signs of the coefficients and t-statistics. This means that any increment in any of the independent variables with the positive sign would lead to an increase in the dependent variable (direct relationship) and for the negative sign, an increase in the independent variable would lead to a decrease in the dependent variable (inverse relationship).

Furthermore, the regression result also revealed the significance of each independent variable in impacting the dependent variable, and was used to test the study hypothesis. Based on the rule of thumb and the significant level of 0.05, the probability value of log of board size (LBOSE), log of audit committee size (LAUDC), and log of board independence (LBIND) were all significant at 5 per cent level of significance with probability values of 0.0437, 0.0393, and 0.0162 respectively. This showed that the three independent variables all significantly have an effect on the dependent variable return on equity (ROE) based on the fixed effect panel regression. However, while log of board size (LBOSE) had a positive and significance impact on the dependent variable, log of audit committee size (LAUDC), and log of board independence (LBIND) had a negative significance impact on the dependent variable ROE.

The coefficient of determination (R-squared) of the model under consideration which measures the goodness of fit of the model had a value of 0.56. This indicated that all the independent variables explained about 56% of the variations in the dependent variable (return on equity). After adjusting for degree of freedom, the adjusted R-squared was 0.50 (50%).

Finally, the durbin-watson test revealed whether there was autocorrelation in the model. Autocorrelation means that all or some of the independent variables are related which makes the regression result spurious. The value of the durbin-watson variable must be estimated at 2 to ensure that there is no autocorrelation in the model. The durbin-watson value of 1.89 was approximately 2 to show that there was no autocorrelation in the model.

4.3 Random-Effect Regression

Table 3: Random-Effect Regression (ROE as Dependent Variable)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	34.29813	40.89535	0.838680	0.4037
LAUDC	-11.21022	17.46676	-0.641803	0.0225
LBIND	-2.064983	6.328330	-0.326308	0.0449
LBOSE	4.628291	10.87266	0.425682	0.6713
R^2 = 0.58	Adjusted R^2 = 0.52	Durbin-Watson Test = 1.91		

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The random-effect regression output in table 3 also showed the significance of each independent variable in the model, which was used to test the study hypothesis. The coefficient sign language showed that LBOSE had a positive impact on return on equity (ROE). However, LAUDC and LBIND had negative impact on ROE.

Based on the rule of thumb and the significant level of 5 per cent, the probability value of logs of both audit committee size (LAUDC) and log of board independence (LBIND) were only significant in impacting the dependent variable return on equity (ROE) with probability value of 0.0225 and 0.0449 respectively. However, log of board size (LBOSE) was insignificant at 5 per cent significant level with probability values of 0.6713. This showed that both logs of audit committee size (LAUDC) and log of board independence (LBIND) were negative and significant in having effects on return on equity (ROE).

The coefficient of determination (R-squared) of the model under consideration which measures the goodness of fit of the model had a value of 0.58. This showed that all the independent variables explain about 58% of the variations in the dependent variable (bank performance). After adjusting for degree of freedom, the adjusted R-squared was 0.52 (52%).

Finally, the durbin-watson test was 1.91 to show that there was no autocorrelation in the model.

4.4 Post-Estimation Tests

4.4.1 Hausman Test

This test was utilized to determine the model to select and discuss between the fixed effect regression and the random effect regression result. The decision criterion was to reject the null hypothesis if the probability value of the Chi-square Statistic of the Hausman test was significant at 5 per cent level of significance and vice versa. The null and alternate hypothesis used to test the Hausman test is:

H_0 = Random Effect (Probability greater than 0.05)

H_1 = Fixed Effect (Probability less than 0.05)

From table 4, the Chi-Square Statistic probability value of 0.0393 was significant at 5 per cent level of significance. The significant result showed that the null hypothesis would be rejected and this means that the fixed-effect model was appropriate for this study and would only be discussed.

Table 4: Hausman Test Result to determine the best regression output to use

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	11.689447	3	0.0393

4.4.2 Breush Pagan LM Autocorrelation Test

This tested for autocorrelation in the panel data. Although the durbin-watson test already showed that there was no autocorrelation in the model, this test was used to corroborate the finding. The null hypothesis showed no presence of autocorrelation and vice versa.

H_0: There is no presence of autocorrelation in the model

H_1: There is the presence of autocorrelation in the model

From the result in table 5, the probability value of 0.4372 was not significant at 5% level of significance to show that there was no autocorrelation in the model.

Table 5: Breush Pagan LM Autocorrelation Test Result

Test	Statistic	d.f.	Prob.
Breusch-Pagan LM	27.03246	10	0.4372

4.5 Discussion of Findings

The result from the panel unit root revealed that all the variables are stationary at levels, therefore, the study utilized the fixed effect and the random effect panel regression. The Hausman test suggested the adoption of the fixed effects only.

For the fixed effect panel regression result, there existed a significant relationship between the three independent variables and firm performance for the ten companies. Therefore, the null forms of the three hypotheses were rejected based on the significant relationship.

However, for board size, the significant impact was positive. This confirmed the importance of board size with respect to internal control. The board size determines the flow of control from the top hierarchy to workers at the companies. Thus, their function of determining internal control is a vital function which boosts performance.

Audit committee size was negatively significant in having an effect on the dependent variable. This may be as a result of members of the audit panel. Some members may have received gifts and bribe to give good report. Others may decide not to do a critical job in examining the company's books due to favoritism. Also, there is the issue of withholding of some vital information by workers of the companies from the audit panel due to various secretive reasons.

Board independence was also significant negatively in impacting firm performance. This shows that despite the independence of the board, it still has an inverse relationship with return on equity. This may be due to factors like the board not totally independent in taking decisions as some equity shareholders prefer controlling the board's decision making process.

5.1 CONCLUSION

The study investigated how company performances could be boosted through the use of internal control mechanisms. The findings confirmed that this could truly happen as internal control factors like board size, audit committee size, and board independence examined in the study were significant in impacting firm performance measures by equity returns. This was confirmed by the probability values of the fixed effect panel regression. The fixed effect was selected based on the Hausman test result which favored the fixed effect regression above the random effect regression.

5.2 Recommendations

1. There should be more effective measures to evaluate the performance of the Board.
2. Firms should endeavor to have a realistic and sustainable board size because an excessively over-sized board could be unfavorable to the performance of the firm.
3. The Board of directors should be more diverse in the composition of board members as this would boost their independence.
4. The audit committee should have a reasonable and sustainable size that would do their job without influence from within and outside the companies.

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